

Innovation Survey

Enclosed is a major report on innovation based on the participation of senior executives from leading businesses. This document presents the culmination of the analysis of the findings and we believe that it contains significant new insights into how to improve innovation performance.

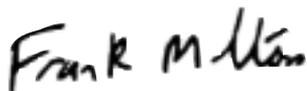
Innovation has for too long been confined to the world of R & D and new product development. The time has come for innovation to enter the main stream of management thinking, to achieve its rightful place alongside financial management and strategic planning as a determinant of business success.

The research has highlighted a gap between the most innovative and the least and clarified the programme of action that many organisations have to undertake to remain high value businesses into the next century.

The journey is likely to be a difficult one for many; but those that succeed will ensure that they grow the value generating potential of their businesses to the limit. Those who do not embark upon the package are certain to fail; only the timing is in question.

We hope that you will find inspiration to start your journey from the discoveries in this report.

Yours sincerely



Frank Milton

*Global Services Integrator, Management Consulting Services,
PricewaterhouseCoopers*

Foreword

It is easy to observe that change is a pervasive feature of our lives. Some new prospects are placed seductively before us (the internet), others seem imposed (deregulation, privatisation). Yet we accept them all with varying degrees of willingness.

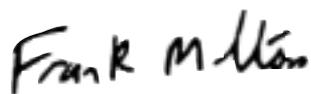
Surely in our lives we have a responsibility to *improve* through change and *build* futures that people want to be part of? If we do not, sooner or later, we will be engulfed by the advances and be carried with the tide into an uncertain future.

Much of business literature, and management education, training and development, is focused on a model that effectively leaves future to fate. Detailed analysis of the past, control and stewardship of the status quo feature prominently. Actions are filtered by past experiences. Even the more recent focus on disciplines such as 'strategic thinking', 'learning' and 'leadership' have not yet delivered against their promise, as they are not embedded in the day-to-day running of many businesses.

But there are companies which stand out from the crowd in terms of their capability to form their chosen futures. These companies embrace new ideas with the same enthusiasm that others wallow in past glories and defeat. What binds these companies together is that they firmly believe there is one durable route to the future competitive advantage: *innovation*.

So what is it that makes some companies and people effective innovators while others stare wide-eyed in amazement? Is it a feature of a particular industry (no!) or some corporate 'genetic programming' (in part, but programmes can be copied)?

This survey explodes many innovation myths and lays down some challenges to the management of our major enterprises. I hope that they are prepared to listen and to begin the journey of the mind that will ensure future competitive advantage for them.



Frank Milton

*Global Services Integrator, Management Consulting Services,
PricewaterhouseCoopers*

Minding your own business

Existing size and profitability are no guarantee of future success. Innovation is.

No organisation can allow necessity to be the mother of invention. We must create and invent now, time and again, in a way that delights our customers, our investors and ourselves.

The successful translation of ideas, big and small, into action, everywhere in your business is the key to success, even exponential and currently unimaginable success.

Innovation must be total and continuous.

How do we do this?

The creative human mind

We already have some good insights into the creative mind.

Creative people are:

- Passionate about their work (“Thank goodness it’s Sunday evening”).
- Well-informed in their area.
- Able to overthrow outdated patterns.
- Able to connect disparate ideas, images and frames of reference.

The creative human mind is therefore an energised, knowledgeable, challenging and open system forming practically infinite connections every hour of the day.

The innovative organisational mind

The findings presented in this report suggest striking parallels between the creative individual mind and the innovative organisational mind.

Being passionate is the result of a shared image of the future and underpinning values. Individuals can only be well-informed if there is a climate of total trust throughout the business. You will only overthrow outdated patterns if you encourage diversity of viewpoint and constructive dissent. You will only connect disparate ideas across the organisation if there is a management style and climate of openness.

Like the human mind, the innovative organisational mind is an energised, knowledgeable, challenging and open system forming practically infinite connections every hour of the day.

This report tells you how to do this, how to 'mind' and manage your business for innovation and even greater success.

A handwritten signature in black ink, appearing to read 'Mark Brown'. The signature is fluid and cursive, with a large, sweeping initial 'M'.

Professor Mark Brown
*Director Innovation Research Centre,
Henley Management College*

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Executive Summary

Innovation: the successful implementation of new ideas in any aspect of a business

What stops innovation?

Ask any chief executive if he or she would like their organisation to be more innovative and the answer is likely to be a resounding “yes.” But this is as far as some organisations get. These organisations assume that innovation is the exclusive preserve of small or high-tech companies and that they are simply too big or in the wrong industry to innovate. Resignation and inertia block further action.

Among the most common reasons for this inaction are doubts about:

- how much innovation is needed and where
- what changes will be required to become more innovative
- how to effect the necessary changes
- where to start
- will we succeed - and what happens if we fail

Even those companies that actively pursue innovation struggle to obtain genuinely new ideas with commercial value and, above all, to translate those ideas into action.

The challenge of being innovative is starkly revealed by our survey. Our research shows that top innovators can generate over 75% of their revenue from products and services that were not in existence five years ago. For the poorest performers the corresponding proportion is 10% or less (*see fig 1*).

We set out to determine what explains this yawning chasm between the innovation capability of the highest performers and the lowest, as well as what changes companies can make to join the ranks of the leading businesses.

% of turnover from products/services introduced in last five years

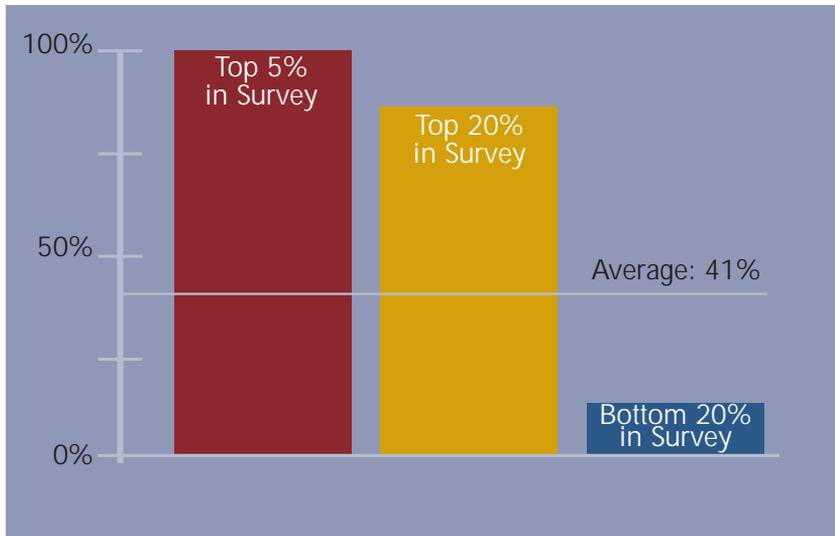


fig 1

Any company in any sector can be more innovative

The top performers in our survey represent a diverse group in terms of both size and type of business. What makes them different is that these companies are able to bring to fruition novel and beneficial change in all aspects of their organisation's output and operations - innovation occurs as fluently in process redesign and ways of working as it does in new product and service introduction. These top performers can turn over their whole product and service portfolio every five years and innovate broadly across the entire business. How do they achieve this?

The most innovative businesses make innovation a priority at board level, releasing risk capital whenever and wherever it is needed to support bold ideas. They continually examine where they should focus innovation efforts for maximum benefit and are passionate about what they do and how they do it.

10 characteristics of top innovators

The survey reveals the 10 characteristics that separate the highest performers from the lowest, with **trust** as the number one differentiator. The top performers trust empowered individuals to communicate and implement change in order to turn strategic aims into reality.

3 underlying capabilities

These high performers focus on developing critical underlying capabilities that underpin their success and distance them from the competition. The top 20% in the survey turn their ideas into action via well defined **idea management** processes which:

- seek and gather ideas and knowledge widely, from customers, suppliers, employees, other industries and competitors
- allow ideas and knowledge captured from the environment to be shared, stored in user-friendly form, and made freely accessible
- actively encourage diversity of viewpoint, talent and expertise
- delay the premature evaluation of new ideas by giving managers considerable discretion to pursue ideas without subjecting them to a formal appraisal

The most innovative companies bring their idea management processes to life by **creating a climate** which encourages ideas to flow freely through the business by:

- developing and promoting people who share a common set of values and using both values and competence as criteria for appraisals
- using carefully designed reward and recognition systems to reinforce management behaviour that encourages innovation
- training managers to support as well as challenge and to coach rather than direct so that they create a climate more favourable to innovation.

An effective **balance between leaders and followers** is crucial to sustaining an innovative working environment. For the highest performers this means:

- defining which decisions can be taken unilaterally and which must be based on consensus so that the social contract between leaders and followers is made explicit
- recognising and rewarding people who take the lead in encouraging others to challenge current ways of working by, for example, sponsoring and protecting mavericks
- employing human resource processes which, by recognising that leadership roles are often separate from management positions, selectively promote role models at all levels of the organisation

2 contrasting management styles

The impressive performance of the most innovative comes from a **style of innovation that is more open**, rather than closely managed. Three quarters of the top 20% of our survey respondents exhibit this open style. All of the top 5% do.

6 action points for the CEO

The gap between the innovation performance of the top 20% and the bottom 20% in our sample is startling and significant. Joining the top performers involves fundamental changes in the way the organisation views innovation and requires considerable drive and ambition.

Start by closely questioning and challenging your own assumptions and beliefs about innovation. Then act.

- Look for the areas where innovation can transform your business and pursue the open innovation style needed to deliver success
- Push these views and raise the expectations and ambitions of those who will deliver the necessary changes
- Assess how to make the climate more supportive of innovation
- Critically examine how new ideas are nurtured and harvested
- Make all ideas and knowledge created within the organisation freely accessible
- Challenge the current contract between leaders and followers

We have a practical programme for helping CEOs to accelerate their companies into the ranks of the top performers.

This programme is derived from the experience we have gained helping our clients to manage transformational change and from our grounding in innovation theory and practice.

The findings of this survey have also helped us refine our work to support the ambitions and imaginations of our clients.

We are convinced that:

- the only way to do better than a competitor is by doing something noticeably different
- the ability to innovate, to learn and change, is the hallmark of lasting corporate success.

About this survey

Why this survey is different

The study of innovation is confusing; pragmatic and effective advice is hard to find. There is a wealth of academic and popular sources that provide a myriad of information on how to increase innovation in business.

The findings of this survey dispel some of the myths created by the populist literature and, together with our synthesis of the extensive academic work on this subject, this report aims to produce a practical and integrated view of how to become more innovative.

In conducting this work, we were also keen to discover the views of some of the most senior figures in industry, many of whom are attempting to transform their businesses and finding the process difficult. Our experience told us that there were no panaceas in this area, that the successful companies have not found any 'magic bullets'. Hence we wanted to identify the key factors that help businesses innovate and to do this with a higher degree of statistical reliability than the traditional 'attitude survey' approach.

Who took part?

The contributors came from both manufacturing and service sectors:

Split between manufacturing and service companies

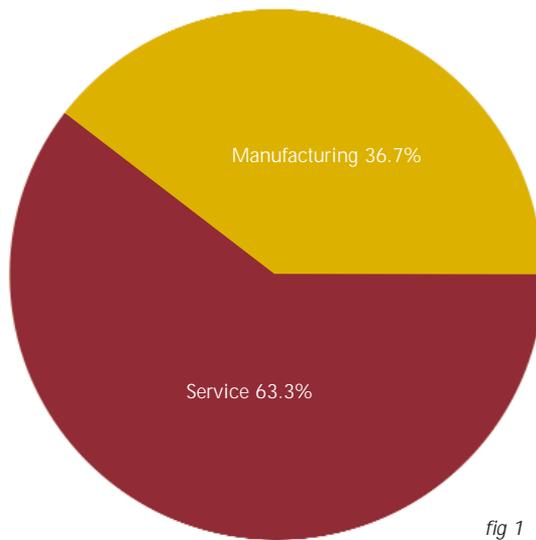
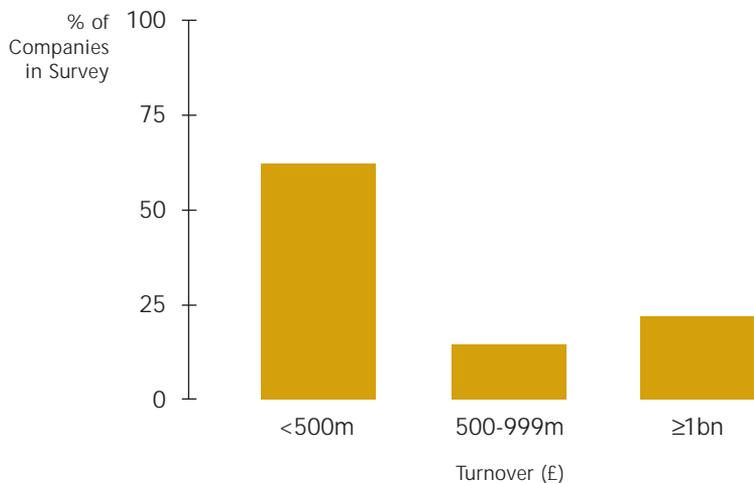


fig 1

Only companies with turnovers greater than £100 million have been included in the survey:

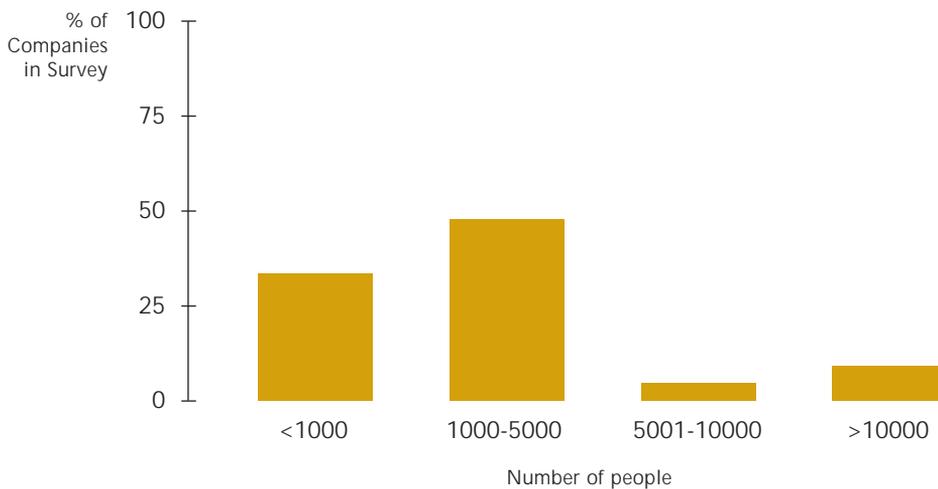
Turnover of participating businesses



Survey Sample = 300 Companies

fig 2

Number of employees in participating businesses



Survey Sample = 300 Companies

fig 3

How to recognise a successful innovator

We have selected the *proportion of revenue generated from products and services introduced in the past 5 years* as the single most reliable basis for identification of high and low performers. This approach is also used by most leading academics and therefore the conclusions drawn from this work can be compared with other surveys based on the same assumption.

As can be seen in *fig 4*, there is a considerable spread in the performance of the companies that participated:

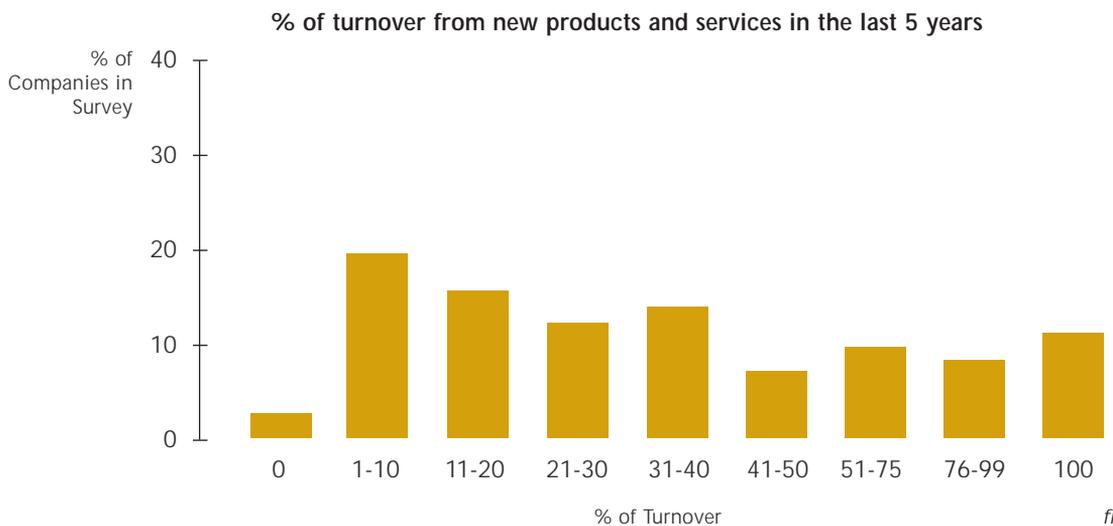


fig 4

To draw out the differences between the highest and lowest performers we chose to split the data into two sub-samples: the upper 20% of respondents being our highest performing innovators and the lower 20% the lowest performers. Within the top 20% group we have further focused on the top 5% to spotlight what separates the most innovative from the rest.

This stratification of the data allowed statistical tests to be applied to the sub-samples and observations to be made with an associated level of statistical confidence. We are confident that the differences observed are real (see fig 5).

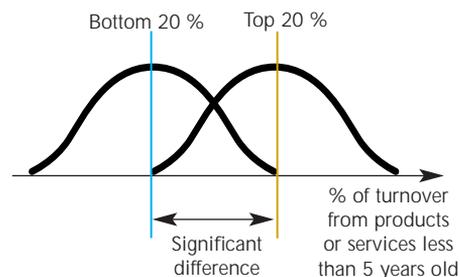


fig 5

What about sector differences?

It is often presumed that certain sectors are more innovative than others and they are in some way 'special'. However, much recent academic work suggests effective innovation practices are mostly independent of the sector and this survey confirms that whatever makes a company a high performer, sector has little to do with it.

There are certainly differences between sectors in terms of the *average* values of turnover from products and services less than 5 years old and numbers of products and services launched per year.

Similarly, on a scale of 'new to company' through to 'new to world' there are sector average differences in the radicality of new products and services.

However, as a guide to the practices that make organisations more innovative, our survey reveals that sector is misleading. Examining the sectors of the *individual* companies that represent the top 20% performers, it is clear that many are *atypical* of their sector classification.

Mean % of turnover for products and services less than 5 years old by sector

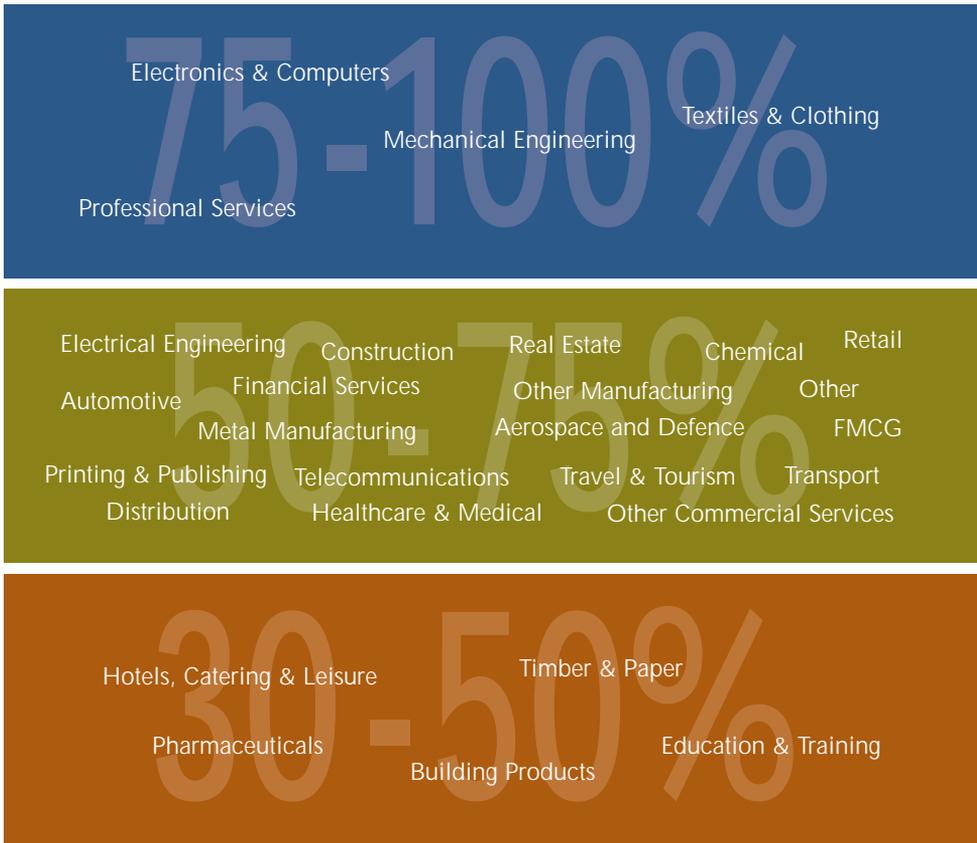


fig 6

How many product or service launches per annum by sector?

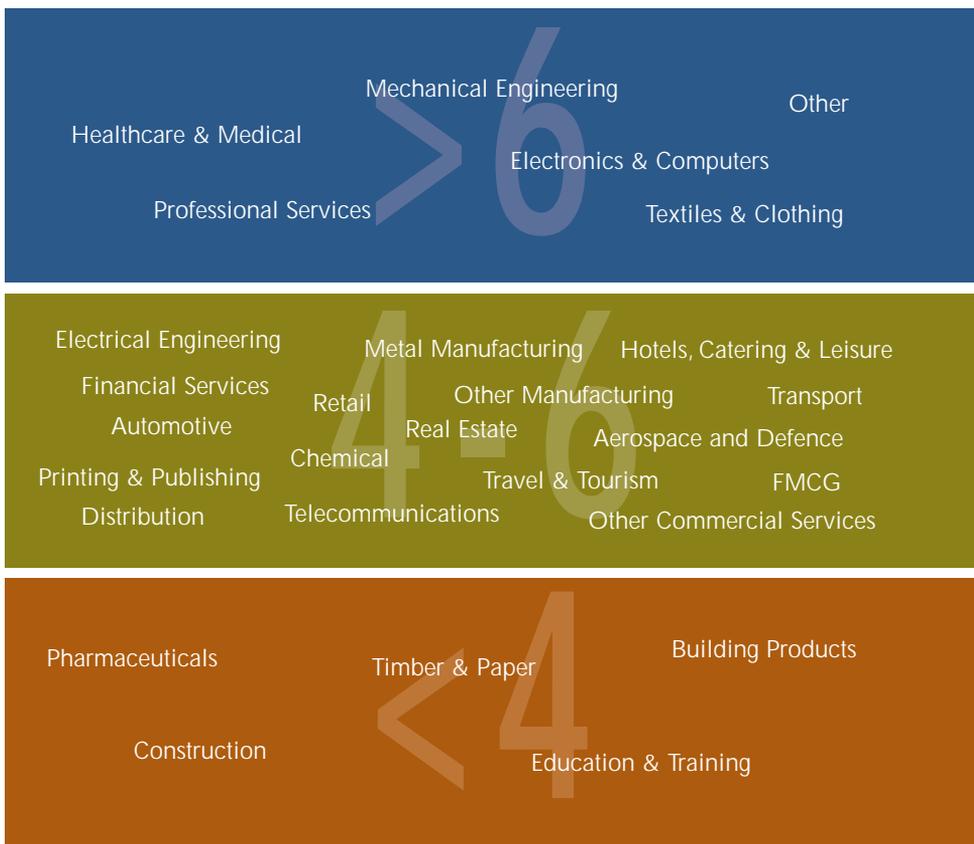


fig 7

How radical was the last new product or service by sector?



fig 8

- High** Absolutely new - it changed the industry
- Medium** Reasonably new - there is nothing very much like it in the industry Quite new - there are some similar things in the industry
- Low** A little new - there are a small number of things that mark it out as different Not really new at all - it is basically a repackaged version of an already existing product or service

Sector breakdown for individual companies in the top 20% of the survey sample

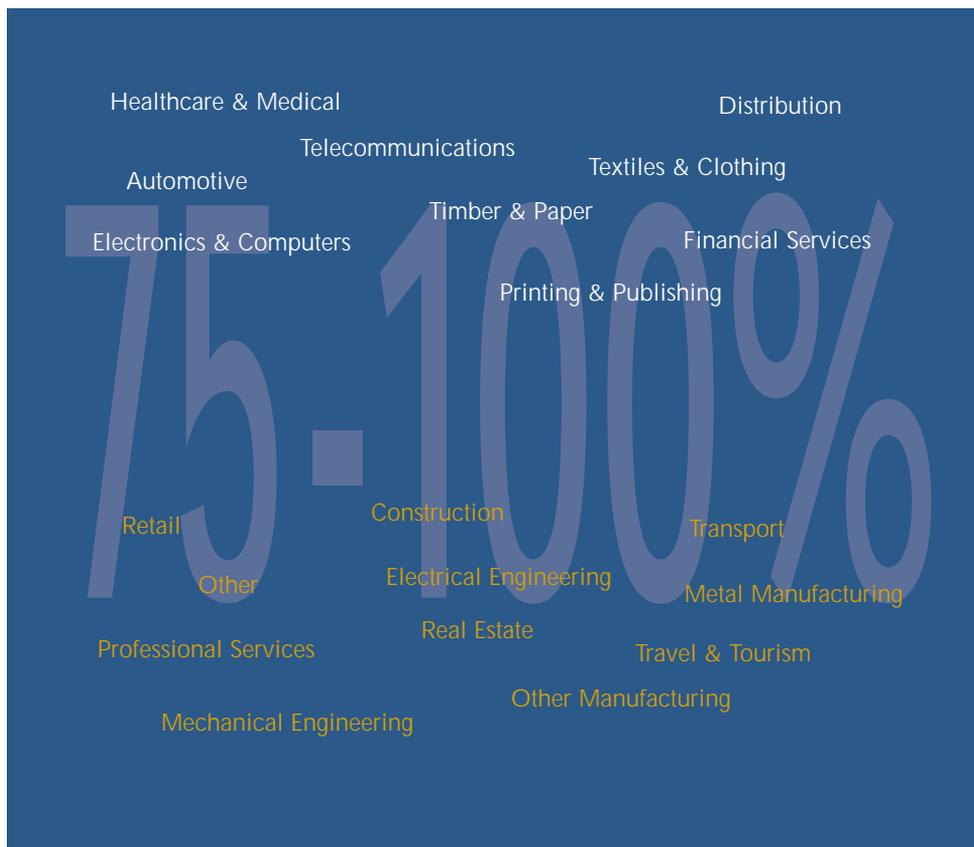


fig 9

- White Top 5%
- Yellow Remainder of Top 20 %

So any individual company can strive for the label of 'most innovative' regardless of sector.

Dispelling the myths

Introduction

In this section we articulate the myths of innovation, re-framing them based on our findings and practical insights and translate all of this into actions for CEOs.

To structure the presentation we have adopted the most widely used model from the academic study of creativity and innovation.

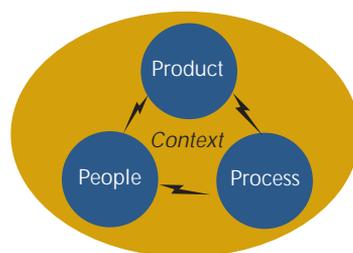
Context the background environment for innovation (with a particular focus on internal cultural and behavioural factors)

People the source of innovation (with a particular focus on those factors which affect personal creativity)

Process the methods for innovation (which includes, but is not restricted to, new product and service introduction)

Product the outcome of innovation (which includes, but is not restricted to, new products and services)

A structure for the findings



After Rhodes and Isaksen

fig 10

Context – *the background environment for innovation*

The Myths

- Only small or new companies innovate
- One great idea is all we need - don't waste time generating mediocre ones
- Better play safe - stick to what we know
- Innovation is a part-time activity

The facts – successful innovators:

- were not confined to any specific categories of age, size, sector or geographic region
- create a climate in which many ideas can reach their potential
- actively seek new viewpoints and give people discretion to take risks
- embed innovation into everyday ways of working

Our insights

- Even with all our modern tools and technology, at the heart of all innovations are people using their creative capacities to develop new ideas. However, the motivation we feel to do this depends on our perception of how acceptable it is in the situations we work in; the working environment or climate has a significant effect.
- Individually we all sense and use climate to judge how we should behave in social situations, but we rarely address it consciously. If we know we need to be creative, we tend to go somewhere else where we feel more able to do that, rather than ask what we could change about where we are. This is why country hotels do such good conference business.
- The assumption underlying this approach is that climate is a fixed characteristic, and that only certain places or organisations have what it takes to be innovative (eg small, entrepreneurial, young, high technology, based on science parks, with trees and so on).

What changes
would make
your
organisation
more
innovative?

“More open
management”

- Both from the survey data and from our experience, we know that successful innovators come in all ages, shapes and sizes. What does connect them however is that sense of energy, curiosity and trust you get when you walk in the door. They feel different. Most organisations have it in parts - changing things means spreading it around.
- The factor which has most influence on people's perceptions of climate, and hence on creative performance, is the behaviour of the role-models and leaders they see around them. This means encouragement, rather than coercion; consideration of ideas, rather than dismissal; and trust rather than control.
- This means addressing often difficult behavioural issues, but it was the number one factor survey respondents felt could improve their ability to innovate. No one mentioned new brainstorming techniques!

CEO agenda

- Decide to be deliberate about innovation, rather than just hope for the best
- Identify those behaviours which stamp out new thinking, and stamp out those instead
- Challenge the status quo - successes as well as failures (successes today can become the failures of tomorrow)
- Provide a risk fund (time and money) to explore possibilities
- Make innovation a collective responsibility (particularly yours) and provide help where needed
- Make fostering the climate in which innovation occurs naturally the top priority of your executive team.

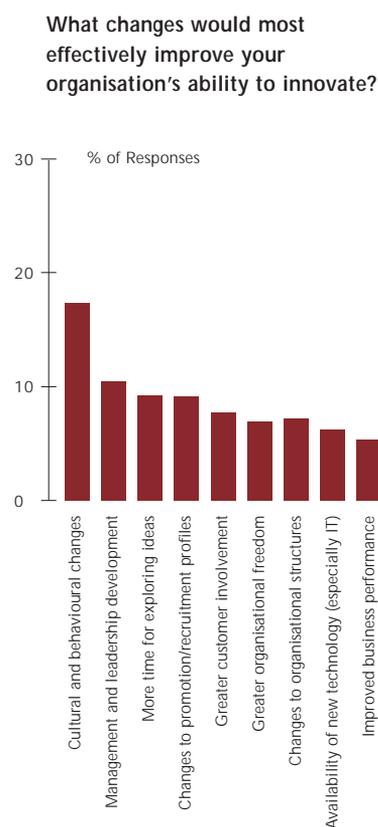


fig 11

People - *the source of innovation*

The myths

- Emotions do not belong at work
- A few bright sparks will do
- We need people whose faces fit
- We just need good people in charge

The facts - *successful innovators:*

- consider trust to be the most significant factor influencing their success
- harness diversity across viewpoints, functions and divisions in generating ideas and making decisions
- deliberately recruit and develop people who challenge the status quo
- establish a balanced relationship between the contributions of leaders and followers at all levels

Our insights

- Creative solutions come from making new and useful connections between previously unconnected ideas, and therefore frequently emerge either from diverse teams or from individuals who maintain a diverse range of relationships. We find that organisations which involve a broader range of people in innovation consistently produce and implement better ideas more often.
- The reason many organisations find this diversity difficult to handle is the obvious one - people with viewpoints and preferences that are too far apart find it difficult to work together. If you ever need an example just watch a Parliamentary debate. The art of making this tension creative is to work with climate and process to minimise the interpersonal conflicts and maximise productive dissent.
- At the heart of the issues impacting how people work together is trust. Of the quantitative data in the survey, trust between people

From what sources do you get your ideas?

“Brain power. Seeing what’s going on around the world, talking to others”

which enabled them to share ideas freely was the single most significant factor in differentiating successful innovators. A certain background level of trust is necessary before people will even enter into constructive discussion, let alone productive dissent.

- People need mental agility and the ability to build rapport to hold productive conversations in which people of diverse perspectives feel engaged and valued. This does not describe most business meetings which are more often thinly disguised power-games with clear winners and losers. Trust is not often apparent and is all the more noticeable when it appears.

CEO agenda

- Decide whether you want compliance or commitment, and ask how much trust exists at present
- Ensure no one, including you, is seen to be the owner of the only valid perspective on an idea, a situation
- Check how many of your meetings and processes are 'single viewpoint' based (ie within groups or functions, rather than networking across them)
- Ask your training department which training and development opportunities help people work with diversity
- Ask yourself how many of your people you trust, and how many trust you

From what sources do you get ideas for new products or services?

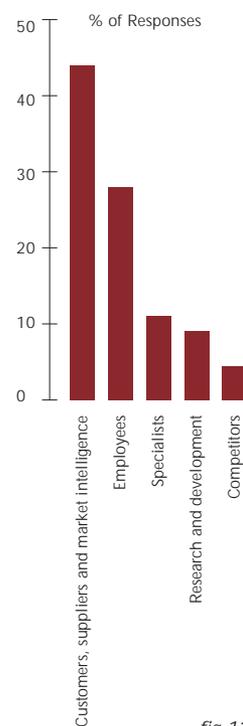


fig 12

How are ideas developed?

“Teams..video conferencing.. internet.. a multitude of networks”

Process - *the methods for innovation*

The myths

- Innovation is haphazard - you just need luck
- We know what our customers want
- Market knowledge is best held by specialists
- We don't need a process - when we need ideas we run workshops

The facts - *successful innovators:*

- deliberately balance process and outcome focus to take advantage of opportunities that others miss
- research customers, non-customers, suppliers and the wider environment rather than make assumptions
- have market facts, interpretation and insights understood widely, with few organisational levels between the marketplace and the Board, and effective knowledge sharing
- don't rely solely on workshops but use a wide range of mechanisms as part of an overall idea management process

Our insights

- Many years of research have shown that waiting around for inspiration to strike is not a reliable method. Leading up to every 'Eureka!' there are days, weeks, even years of effort which produce that vital insight which makes the final connection.
- Equally, taking a deliberate approach to the innovation process does not mean a linear 'production line' for ideas, but it does mean creating the circumstances where success is more likely and where innovation is a way of life.

- Moving away from the prevailing image of an organisation as a machine requires thinking of an organisation more as a living system where, as connections between elements in the system increase, and the information flows along those connections increase, new possibilities emerge which could not have been anticipated through purely logical analysis.
- In practical terms this implies that it is not possible to know in advance which piece of information shared with which person will prove to be the key, so an effective process must: 1. provide as many opportunities as possible for people to connect and share information, thus increasing the chances of useful connections being made; 2. equip people with the skills and tools to notice those connections and be able to do something with them; 3. sit within a context which makes knowledge a shared resource, not a source of power.

CEO agenda

- Ask how many meetings in your organisation produce truly new and useful insights
- Check how often people read/access internal communications, and find out why
- Check and compare the different views of your markets in different parts/levels of your business, and find ways to share them more widely
- Involve your customers and the people who know them best in innovation

What mechanisms exist to share, debate and develop ideas?

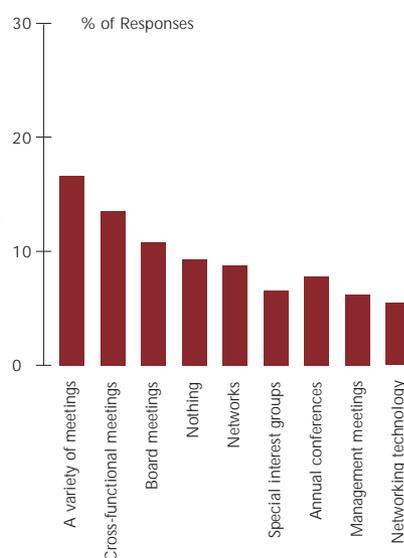


fig 13

What does innovation mean to you?

“New ideas, new methods and new ways of adding value”

Product - *the outcome of innovation*

The myths

- Innovation belongs in marketing and R&D; they know our market and technologies best
- Innovations are often strange and not always very practical
- Necessity is the mother of invention
- You can't measure innovation

The facts - *successful innovators:*

- don't limit the possibilities, but make informed choices about where to innovate by imagining a different world, rather than simply extrapolating today's
- know how to combine novelty with usefulness anywhere in their business
- understand that if you only react to problems, you miss opportunities: anticipation is key - focus on the future
- value innovation enough to find measures which help them improve

Our insights

- New products and services may be what most people identify with innovation, but that leaves whole areas of the business with untapped potential eg: market offer, processes, organisation and skills etc. We find that, having spent so much effort in past years on the dominant business models of trimming costs and resisting attack on existing ground from increased competition, organisations often find it difficult to shift the mindset to one of looking for opportunities, particularly when innovation seems so intangible.

- We see too many examples where organisations focus on throughput and conformance 90% of the time, and then expect people to suddenly ‘be innovative’ when problems occur, or at training courses and awaydays. Taking advantage of more of the opportunities for innovation means making it more generally acceptable, spreading the responsibility, and creating the space for it to happen. There is a fine line between the creative pressure which will encourage people to find novel solutions, and the stress which causes them to focus on short-term expediency.
- ‘Novelty’ and ‘usefulness’ do not have universal measures and that makes it more important that organisations decide what innovation means for them and their context.

CEO agenda

- Broaden the scope of innovation across the entire business to create new possibilities
- Make contributing to innovation everyone’s responsibility, not just R&D or Marketing: the best new ideas may come from surprising sources
- Give ‘opportunity seeking’ the same priority and visibility as ‘problem solving’
- Find performance indicators which fit your needs (eg. plot the percentage of your sales and profits which come from products/services launched in the past 1,3,5,7,10 years, and ask yourself what shape the graph needs to be in the future)

In a business context, what do you understand the term innovation to mean?

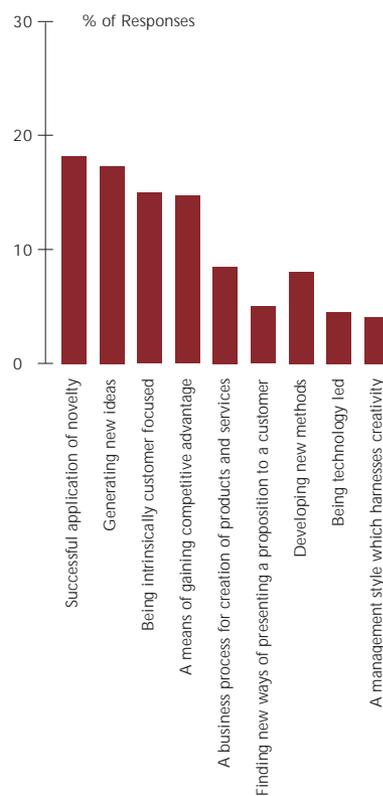


fig 14

What does this mean for CEOs?

Introduction

The previous section gave insight into specific actions that engender innovation. But how can you weave this apparently disparate list of 'things to do' into a framework that will guide and direct behaviours to make your business more innovative?

In this section we answer this question by revealing our overall insights into the findings of the survey by defining:

- The **10** fundamental characteristics of innovative organisations
- The **3** underlying capabilities that must be developed
- The **2** contrasting management styles that lead to success in a changing environment (but one more so than the other)

Then, in the final section of this report we explain how to apply this new knowledge in practice.

The 10 fundamental characteristics

Order of importance	Characteristics of most innovative companies
1	Higher degree of management trust
2	More active flow of ideas
3	Fewer organisational levels between executives and the customer
4	Explicit idea management process that people adhere to
5	Recruit challenging managers
6	Have managers who delegate decision making
7	Have managers who involve others in developing ideas into actions
8	Routinely envision the future based on an intimate market knowledge
9	Do not rely on the board alone for significant new ideas
10	Take a balanced view of risk-taking behaviours

fig 15

The 10 fundamental characteristics

By analysing the quantitative responses to the survey, we have been able to identify *10 fundamental characteristics* that differentiate the highest from the lowest performers (see fig 15).

Where does your organisation rank against these factors?

Since management trust is the number one factor, it is likely that the highest performers have achieved a greater coherence of organisational *values* and norms than the lowest (ie trust is the outcome of a common set of values and stable working relationships). This is one of several indicators that the top performers have management styles that are predicated on a different set of assumptions than the lower performers.

The 3 capabilities

The highest performing individual companies come from sectors as diverse as real estate, financial services and electronics and computing. Hence, it is unlikely that the individual organisations took identical routes to implementing the structural, behavioural and technical changes needed to be highly effective.

What is common, however, is that the high performance respondents to this survey focus on developing critical *underlying capabilities* that underpin their success and distance them from the competition. The 10 fundamental characteristics identified cluster into 3 capabilities: the management of ideas, the fostering of a creative working environment and the balancing of the relationship between leaders and followers (see fig 16).

implementing a clear idea management process - top performing organisations recognise the existence of an idea management process that involves systematically generating and selecting ideas, and then translating the ideas into actions. Less successful innovators do not acknowledge or understand the breadth of this process or they have chosen to eliminate crucial steps.

fostering a creative working environment (climate creation) - our survey findings reinforce our long-held belief that creating a climate for innovation is a priority for top performing organisations (climate is the observed behaviours, attitudes and feelings in the workplace). This involves awareness of how they score now in the key climate dimensions and focusing on improvements in areas where they are deficient.

balancing leadership and followership - top performing organisations know how to establish a social contract between the leaders of the organisation and the followers that creates boundaries on empowerment, delegation, participation etc. For example, the high performers have clear guidelines on where consensus decision-making is desirable and where individual managers can take executive decisions unilaterally. For the lower performers, leadership is acknowledged only at the Board level and is blurred with general management elsewhere in the organisation. A higher score on all of these three axes means an organisation will be a high performer and will exhibit the 10 differentiating characteristics detailed in *fig 15*. They will be better at turning new ideas into action.

The 3 underlying capabilities

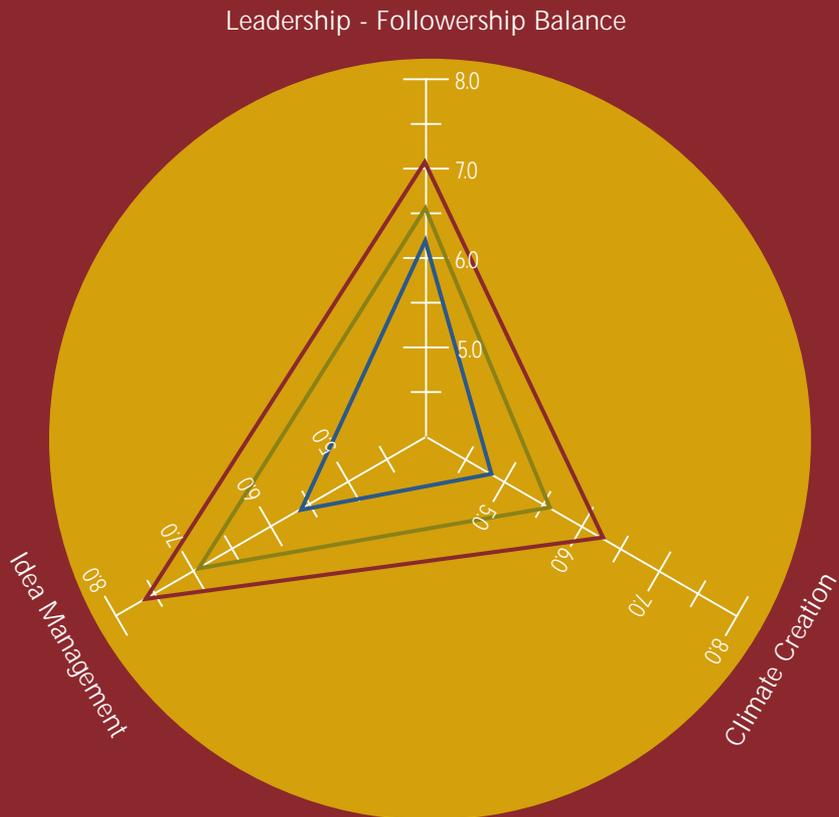


fig 16

% of the Survey Sample

- Top 5%
- Top 20%
- Bottom 20%

As a CEO you need to measure objectively how your organisation scores on these capabilities and envision what profile is needed to meet the challenges ahead and acknowledge the gap. Ask yourself the following questions:

- How do we manage ideas? How does this fit with how we manage knowledge?
- Is our climate conducive to creating the future?
- What is the nature of our leadership and followership contracts?

The difference between a top innovator and a lower performer on measured responses may look relatively small, but the difference in innovation performance is significant: small changes can have a catalytic effect. Rising to this challenge may be the key to continuing success for many organisations.

The 2 contrasting management styles

While individual high performance companies have certainly taken different routes to developing their innovation capabilities, our survey respondents can be classified into *2 distinctive management styles*:

Managed - innovation actively managed as the basis of planned, systematic growth in performance. This is characterised by adaptive, incremental choices that play to existing strengths. These organisations focus almost exclusively on capability building and the finest exponents can achieve high levels of performance.

Open - innovation unleashed as an engine for a continuing stream of strategic moves which shape the future of an industry. This is characterised by radical, discontinuous initiatives that often have no obvious connections with past successes (eg a move from book publishing to electronic media services). These organisations combine a future focus with a balance of capability building and adherence to values as a means to the highest levels of performance.

Each of these styles offers potential for above average performance. Of the top 20%, three quarters exhibit the open, the remainder the managed style. Of the top 5%, all exhibit the open style. The open style appears to offer the greatest competitive advantage, because it has greater potential for generating new value as the environment changes.

The 2 management styles

Managed generates new value by...	Open generates new value by...
superior operational planning and management	embedding innovation as a core competence and value
maintaining world class processes	doing something different from competitors, not just doing the same things better
rapid identification and execution of market opportunities	strategic clarity as to where the growth drivers lie - acquisitions, new markets, technologies, products/services, geographical expansion
continually improving productivity and quality	a continuous stream of innovations across all aspects of outputs and operations
focusing on a best in class market offer	sharing some of their superiority with customers (added value) - and capturing the rest as profit

fig 17

The changing competitive landscape

Most CEOs recognise that competition is not what it used to be. For a long time leaders of organisations have implicitly been making strategic choices with respect to innovation. Pursue a low risk, incremental path for growth, or be more ambitious, take more risk and break with the past. Being able to use new ideas to anticipate those changes and respond effectively is at the heart of sustaining a high return business. Hence, to understand the full implications of the survey findings, it is important to examine the role of new ideas in generating shareholder value and competitive advantage.

Being the first to bring a product or service to market has long been recognised as a key determinant of a high return business. Similarly creating a widely recognised and respected brand is viewed as a key contributor to ongoing success. In each case a new idea has been turned into action.

Traditional economic wisdom states that these starting advantages are eroded over time as competitive forces exert themselves. In maturing markets, companies seek to maintain a high return by securing their market presence through:

- second generation products and services
- refreshing brands
- seeking out new channels to market
- entering into price competition

This tendency to commoditisation will inevitably wear down high return businesses unless innovation is used to constantly generate new sources of value (not just new products and services) and erect barriers to competitor entry. The most innovative companies in this survey have mastered the art of renewing their competitiveness, maintaining themselves as high return businesses through careful attention to developing the 3 critical underlying capabilities (see previous section) which means that they excel at:

- managing ideas as the seedcorn of value, even when this is not initially obvious
- fostering a climate in which all ideas can be developed to their full potential
- establishing a balanced social contract between the leaders and the followers in the organisation that enhances the flow of ideas through to practical application

The message is simple: adopt a more open style or constantly strive to avoid commoditisation and price wars.

From our analysis it is clear that companies that adopt the open style dominate in terms of their ability to generate high returns from recent products and services. Since our survey did not attempt to measure shareholder value directly, we cannot make a definitive statement about how this in turn impacts on organisational stakeholders. Consequently we plan to extend our analysis in this important area in the near future.

How do open innovators compete more effectively?

The top performers are distinguished by being able to conceive and bring to fruition novel and beneficial change in *all aspects* of their organisation's outputs and operations. They recognise that *all* new ideas contain the potential for advantageous change and that it is vital to nurture ideas so that they deliver their full value. This applies even when there is no obvious application for the idea when it is first generated. It is through the relentless creation of useful novelty that the open innovators attain and sustain competitive advantage.

These companies consider the ability to deliver usefulness out of new ideas a vital strategic capability and consequently they:

- make innovation a priority at Board level, for example freeing significant funds as venture capital for inward investment on 'blue sky' projects
- have clear views on where they should focus innovation effort (and where not). For example, the whole business architecture is considered suitable for the application of novelty: business portfolio, market offer (including brands, products and services), processes, people, organisation and skills etc
- use effective communication processes to minimise the gap between strategic intent and reality
- constantly scan and connect with their marketplace and competitive environment, anticipating change
- selectively empower individuals in the organisation to turn strategic aims into reality

First steps

In the preceding paragraphs, we have summarised the findings of our Innovation Survey:

- 10 unique characteristics
- 3 capabilities
- 2 styles

This will help business leaders to identify some of the practices of the top performing innovators, to see the potential for innovation in their own organisation and to identify some gaps in their own views on innovation.

Of course, identifying gaps is not the same as knowing what to do to close them. CEOs are still faced with the questions of what to do and where to begin. In particular, a key question is how to adopt a more open management style and reap the consequent benefits. Hence, in the final section of this report we identify in detail those actions that CEOs must take if they are to match the performance of the organisation with their personal aspirations.

Turning ideas into actions

In the previous section we presented the compelling evidence for adopting an open innovation style. In this section we will outline how best to implement the open style via a radical rethink of the process map for innovation and the steps needed to bring that process to life.

Implementing an open style of innovation

We believe that for most organisations implementation will revolve around a complete redesign of the process for innovation; acting as a focus for changes to the working environment and the contracts between leaders and followers.

The open and the managed styles are effective at turning ideas into actions via well defined idea management processes. However, there are crucial differences in how the processes are configured which we believe put an upper limit on the effectiveness of the managed style.

Based on the survey respondents' feedback, a typical managed innovator process map for innovation is shown in *fig 18*.

Ideas are generated from various sources and then evaluated for their potential and, if they meet certain criteria, are put forward into a formal development process that delivers new products, services and brands. This type of process works well for ideas that have obvious early potential for product, service and brand outcomes, but tends to 'assassinate' ideas with less obvious applications at birth by premature convergence.

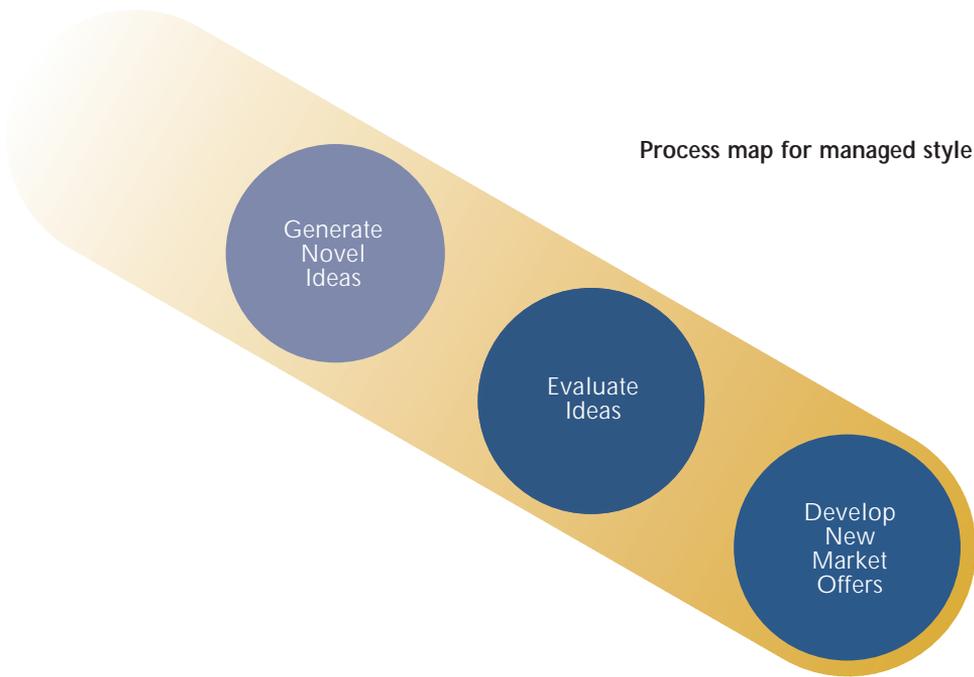


fig 18

Hence, the managed approach will tend to ignore the more radical (high novelty) ideas and therefore is less able to break from the past.

Compare this with the process employed by the open innovators in the survey (see fig 19).

Open innovators invest significantly more in the early stages of the idea management process, both in terms of time and effort. In particular ideas that show any signs of promise are improved through a nurturing process that exposes the idea to a diversity of views, strengthening the idea and often taking it in unexpected directions.

Premature evaluation of new ideas is delayed by a two stage assessment process. In the first stage ideas for further development are harvested from those with less immediate potential, often with the involvement of a variety of people who fully understand the business environment (as one respondent put it, people who “see what is going on in the world around them”). In this first stage there is a mix of subjective and objective judgements. In the second stage a more rigorous evaluation takes place (eg risk assessments, cost/benefits etc) as with the managed style.

This revised process tends to encourage both a higher flow of novel ideas and new knowledge (*see fig 20*) and a greater spread of applicability. Hence, the usefulness of the ideas tends to cover the whole spectrum of the business and so offer a multitude of ways of improving competitive standing and commercial viability. It also means that open innovators themselves cannot always predict where new ideas will take them!

Process map for open style

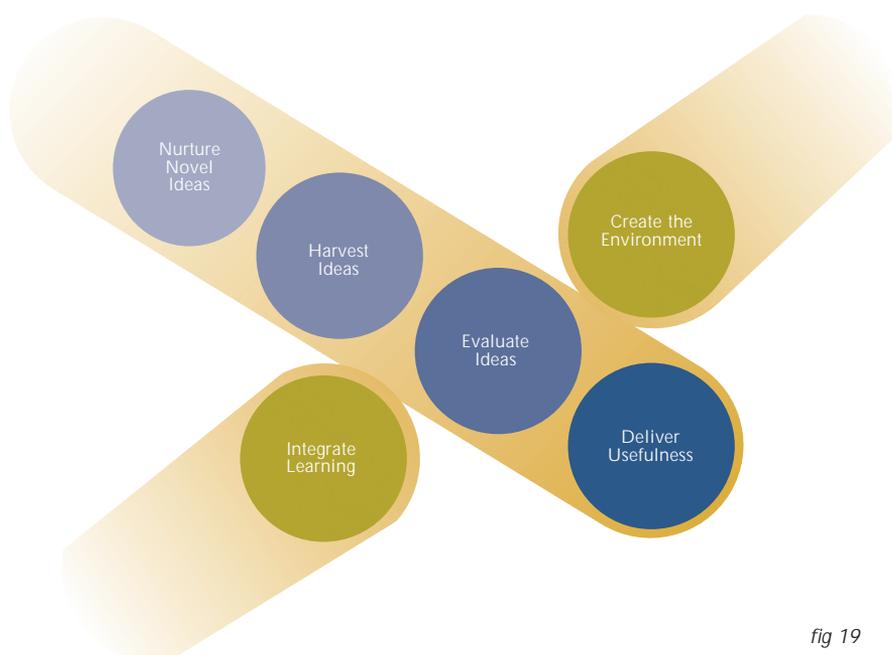


fig 19

The relationship between ideas and knowledge

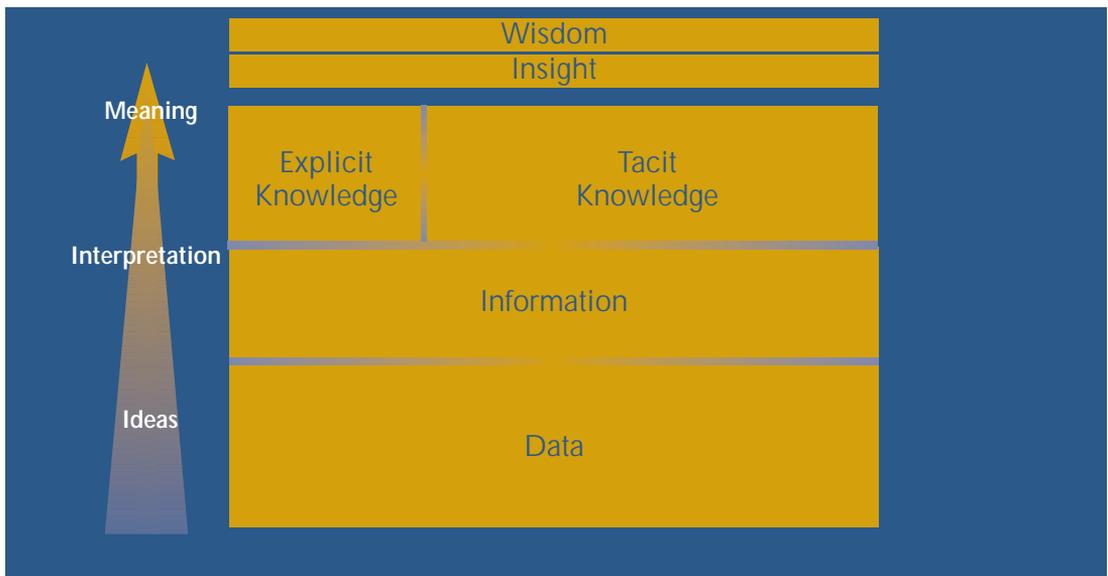


fig 20

-  Current Knowledge
-  Potential Knowledge

Bringing innovation to life through people and knowledge

Managed innovators enable their processes by providing resources and creating organisational and decision-making procedures.

The best performing managed innovators do this very well and are often cited as best-in-class benchmarks. Open innovators do this too, but recognise that it isn't enough. In addition they recognise that they must add climate and knowledge to the management agenda.

They:

- recognise that climate acts as an intervening variable.
An inappropriate climate can make the best processes and resources ineffective, especially in the field of innovation. Hence, climate becomes the true focus for management.
- integrate the learning from innovation by working with both the ideas and data produced by the innovation process, and through interpretation and synthesis turn this into new knowledge and behaviours. Information technology is a key component, but behaviours and mental disciplines are more important, as organisations will prevail that can act on the basis of insights their competitors do not share.

Fostering the climate

In the academic study of climate for high innovation performance it is recognised that there are nine dimensions that will impact on long term business success (*see fig 21*).

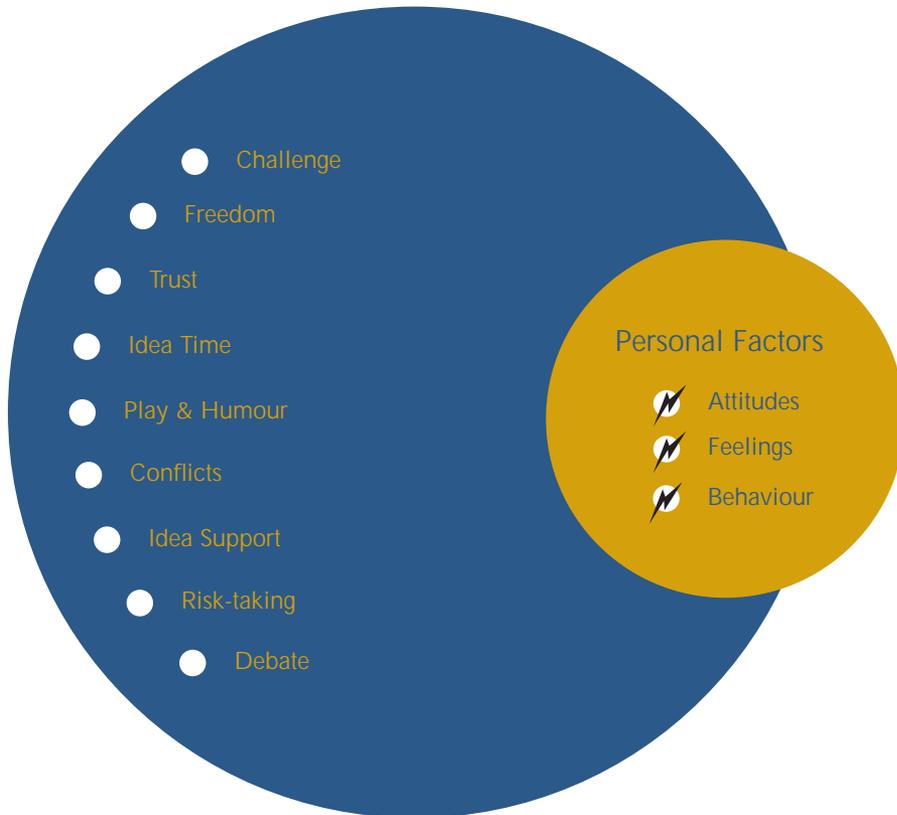
However, from our survey one dimension appears to have special significance for the survey participants, and that is trust: the emotional safety that people find in their working relationships based on agreement on shared values and a universally high competence in task execution (ie “you can rely on people round here to get the job done the way the company needs it done”).

The open innovators have the highest degree of trust, especially between the leaders and managers, while even the best of the managed innovators are still struggling to establish the ethical heart of their organisations. The open innovators have learnt how to achieve a coherence between individual and organisational values and have selected and developed the most competent people for key positions.

Open innovators have added climate to their leadership and management agendas as the valve that controls the flow of new ideas through their idea management process. This involves:

- clarity over organisational values related to innovation, especially the role of trust
- developing management competencies that support climate awareness
- equipping managers in the skills and knowledge that help them create a more favourable climate
- selecting and promoting people who are more competent at climate creation and who will act as role models for the values of the organisation (eg trust)

Dimensions of climate



After Ekvall and Isaksen

fig 21

The Leadership - Followership contract

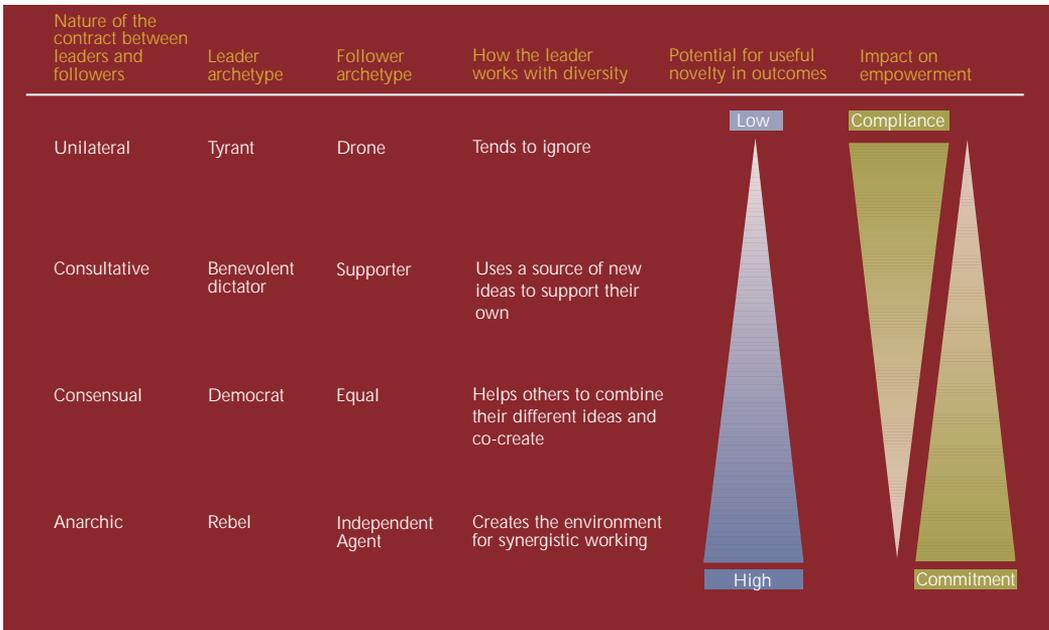


fig 22

A new contract for leaders and followers

Since fostering a climate for innovation is essentially a set of behavioural skills, it is not surprising to find that the open innovators are significantly better than the managed innovators at embedding new behaviours and this is seen as a core leadership competence. Indeed over 70% of the causal variation in climate is attributed to leadership style [Ekvall]. Hence, the root of improved trust lies in the relationship of leaders with their followers.

Additionally, the open innovators have adopted a view of leadership that is broader than the top team and managers, as a means to maximise their organisational learning and the creation of a climate in which innovation thrives. They also recognise that success is not just in the domain of the leaders; followers also have as significant a role to play.

Contrast this with the managed innovators who, in our survey, tend to equate leadership with the top team and selected management appointees (often quoted as the main source of new ideas in the business). Followers tend to be targets for communication and change implementation with little acknowledgement of a social contract between the leaders and their followers. While this allows certain straightforward management actions to be completed efficiently, as a means of generating the highest levels of shareholder value from new ideas it is limited.

In both managed and open innovators there is an explicit or tacit social contract between the leaders and the followers which will enable varying degrees of diversity of mindset (and hence ideas) and commitment.

We have characterised the nature of the contracts based on our observations of different styles of decision-making measured in our survey (see *fig 22*).

The managed innovators tend to adopt predominantly consultative contracts with pockets of consensual and anarchic; often an uncomfortable mix. The open innovators seek to exist between the consensual and anarchic, playing a delicate balancing game to keep everyone aligned to a common set of goals, and accepting that the anarchic contract permits people to choose a separate path (eg a start-up or spin-off venture such as a skunk works).

With the open innovators, the balancing act between leadership and followership can be observed as:

- formally acknowledging the nature of the social contract between leaders and followers and being prepared to change it as the situation demands (learning)
- placing high value on the ability to generate a shareable vision of the future and engaging people in attaining that vision
- recognising and rewarding behaviour that challenges current ways of working and involves others in decision-making
- selective promotion of role models at all levels in the organisation against explicit leadership competencies

Are there lessons for the open innovators?

The open innovators in this survey represent some of the highest performance organisations in the Times Top 1000 and yet from our own experience and their own admission, there are still significant areas or improvement.

From the survey, the top five items in order of importance are:

- Further cultural and behavioural (climate) changes
- Ongoing management and leadership development
- More time spent exploring new ideas
- Changes to recruitment and promotion profiles
- Greater customer involvement in developing new ideas

It is difficult to challenge this list, yet even the best are capable of additional development in areas such as:

- Creating unprecedented levels of performance in new dimensions of competition
- Seeing the world through a different set of windows
- Innovating across the entire business architecture
- Communicating and implementing change rapidly and effectively across large organisations
- Involving more people in nurturing new ideas
- Using Information Technology to enable the interchange of ideas and knowledge
- Managing the knowledge generated as part of the innovation process
- Blending traditional best practice management discipline with anarchy in pursuit of ever higher levels of performance

*Even the best can
get better*

Where next?

We believe it is clear that the economics of competition are increasingly favouring the open innovation style: innovation as a core competence and value. If your current style is one of managed innovation, then you need to embrace some fundamental changes to:

- Your aspirations for innovation
- The way in which initiatives are driven by strategic intentions
- Managing climate to get the best out of your people
- The social contract between leaders and followers
- The flow and management of ideas and knowledge

Managed innovators tend to view their organisations as elaborate mechanisms that can be blueprinted to the nth degree, cast and manoeuvred into place. Open innovators view their businesses as part of a landscape, more alive than manufactured, changing as the competitive environment changes *whether they want it to change or not!*

Bringing these changes about in an organisation requires change management of the highest order; more landscaping than precision engineering. Working with the competitive forces rather than against them.

Our organisation has practical programmes for helping companies to join the top performers. The findings of this survey have helped us to refine and focus the work that we already do in organisations to further support the ambitions and imagination of our clients.

No one can predict with certainty which of these futures will come true. We believe that the only guarantees come from developing the capabilities that can take advantage of *any* future.

Becoming more innovative is perhaps *the* most important strategic choice to be made by any CEO today

Acknowledgements

The authors would like to thank the following people whose insights into the academic and business world of creativity and innovation have made a significant contribution to helping us demystify the fundamental aspects of commercial competitiveness:

Professor Mark Brown and **Dr Dominic Swords** of Henley Management College

Professor Scott Isaksen, **Dr Brian Dorval** and **Dr Ken Lauer** of the Creative Problem Solving Group-Buffalo

Professor Gerard Puccio of the Centre for Studies in Creativity

Dr Chris Dewberry of Birkbeck College

A special thank you is offered to **William T Ristoff** of PricewaterhouseCoopers for recognising that the appropriate herding style for cats is open, not managed.

Many others have participated in discussion and debate over the past months; you know who you are and we thank you!

Finally, we would like to offer a special thank you to the people who gave their time to respond to the questionnaire and talk on the telephone with the authors. Your input has made this survey what it is.

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Annex A The survey process

Introduction

The survey questionnaire is based on the leading theoretical models of the factors that assist and resist the development of an organisational capability for innovation. Both quantitative and qualitative questions were included, the latter being coded to allow detailed analysis.

Responses are from the most senior people in the Times Top 1000 companies. Much of the richness of the survey findings comes from some of the most influential figures in world commerce.

Rigour

The high quality of the findings has been achieved by analysing the data using formal statistical techniques that discriminate between productive and spurious factors based on reliable metrics for innovation performance. Respondents were also asked specific questions about areas such as turnover, number of employees and proportion of revenue from new products and services. Based on these questions the data has been stratified and statistical tests used to compare subsets (eg small versus large, old versus new etc).

How to recognise a successful innovator

Reliably identifying high innovation performance is complex as the most innovative companies view innovation as the *successful implementation of new ideas in any aspect of their businesses*, not just introducing new products and services (the commonest examples quoted are process improvement, cost reduction, branding and the organisation of people).

At the same time, few respondents claim to have accurate and recorded individual or balanced scorecard measures for innovation beyond those for new products and services (eg less than 30% of survey have metrics for innovation relating to people and process). However, all respondents offered reliable new product or service introduction metrics and so can be compared with each other with confidence.

But how do new product and services metrics relate to performance in companies that are innovating across their entire business? Examining the full set of subjective and objective responses to the survey, it is clear that companies that can successfully implement new ideas anywhere also have high percentages of turnover from new products (ie this is a significant outcome of their innovative capability rather than the focus).

The purpose of the community innovation survey is to collect data on innovation activities in enterprises, i.e. on product innovation (goods or services) and process innovation (organisational and marketing aspects). The survey also gives information on the characteristics of innovation activity at the enterprise level, thereby creating a better understanding of the innovation process and the effects of innovation on the economy. The survey is conducted in every European Union (EU) Member State.